

**CITY OF LODI  
INFORMAL INFORMATIONAL MEETING  
"SHIRTSLEEVE" SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, OCTOBER 2, 2001**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, October 2, 2001 commencing at 7:05 a.m.

**A. ROLL CALL**

Present: Council Members – Hitchcock, Howard, Land, Pennino, and Mayor Nakanishi

Absent: Council Members – None

Also Present: City Manager Flynn, City Attorney Hays, and Deputy City Clerk Taylor

**B. CITY COUNCIL CALENDAR UPDATE**

Deputy City Clerk Taylor reviewed the weekly calendar (filed).

**C. TOPIC(S)**

C-1 "Discussion regarding financing City projects and refinancing certain existing City debt (FIN)"

NOTE: Due to a potential conflict of interest, Mayor Pro Tempore Pennino abstained from discussion regarding the electric utility portion of the presentation.

City Manager Flynn stated that recent financial opportunities have occurred which the City may wish to consider, most notably that interest rates are nearly the lowest they have been in 40 years. He stated it would be important to look at opportunities relating to current financial status and future projects. While the City is looking toward partnering with the state on a power plant, we should also consider addressing refinancing Electric Utility's current debt; the public safety project (which includes the new building, the new parking structure, and refurbishing the old building), and various other projects, including refinancing current general fund debt. The City is still developing plans and does not have specific operation costs or proposed revenues for some projects; however, staff is working diligently to prepare this information for Council review and direction.

Finance Director McAthie introduced George Wolf, a representative of Solomon Smith Barney, and Alex Burnett, Managing Director of Public Financial Management, and noted Mr. Burnett's presentation would follow the overheads and the written information provided to Council (filed).

Mr. Burnett stated that rates are lower than they have been in recent years due to recessionary pressure, and that in reviewing rates over the last 20 years, we are well under the average of 7.73%. He anticipated an incremental lowering again in December and January, and suggested that Council review existing debt and the funding of future projects should the City desire to take advantage of this opportunity. In looking at the 1999 electric bonds, refinancing at this point would be a savings of approximately \$4.5 million, and the aggregate debt service could be reduced from \$112 million to \$101 million.

In response to Council Member Hitchcock, Mr. Burnett reported that the savings shown in the sample scenarios are net; funding numbers, bond reserve requirements, and debt service reserve have been included. He stated that while variable rates appear attractive, they present a high risk as they most assuredly will rise, and therefore recommended fixed rates for projects funded by the general fund. He stated just the opposite is true of electric utility, as these projects are good variable rate candidates due to the utility's growth potential.

At the request of Mayor Nakanishi, Mr. Burnett explained that the specifics of the incremental cash flow with regard to a new power plant, spread evenly or spread out over the back end of the funding, would be based on preferences and objectives, and would therefore be at the discretion of Council.

Electric Utility Director Vallow interjected that several scenarios exist that are varied and appealing, and are being presented to Council today for example purposes only. He stated that should the City be successful in negotiating a state project, the state would pay for it, leaving the purposes of discussion to refunding the amount borrowed last year.

Mr. Burnett reported that the general fund presents corresponding issues and considerations, including the effect of rates and events that have occurred since Council's last discussion regarding project funding, specifically the new public safety building. At that time, assumptions were to cost \$18.4 million at a borrow rate above 6%, generating annual costs of \$1.58 million. Reviews and updates of actuals have shown cost changes, rate drops, and an infusion of equity. That combination creates more capacity and a good opportunity for the City to consider additional project financing, such as the upgrade of Fire Station #2, the Indoor Sports Facility, the Aquatics Center, the Animal Shelter, and DeBenedetti Park. Further, he stated a refinance of the Certificates of Participation for Hutchins Street Square would yield an annual savings of approximately \$50,000.

In response to Council Member Pennino, Public Works Director Prima reported that estimates for the police building final plans would be available within a month, parking structure cost estimates will be tight due to a price increase to upgrade the currently estimated steel back facility, and the old safety building remodel cost estimate is uncertain with no detailed work completed at this time. He further shared that the annual cost of leasing the Annex building to house the Finance Department is \$65,000.

Council Member Hitchcock stated that the City currently has saved or accumulated \$7.5 million with an additional \$1.5 million set aside for the Public Safety Building. Thanks in great part to the state and the work of Assemblyman Pescetti, there is a balance of \$11.5 million. She further requested a breakdown of the new debt service, similar to Scenario B, but without the backloading.

Mr. Burnett responded that he would prepare the scenario, called B1 for comparison purposes, stating it would reduce borrowing cost but increase short term cash flow for greater flow on the back end.

Mr. Flynn reminded Council that the numbers presented do not reflect impact fees, possible grant funds, and other sources, which would further assist with the financing of recreational facilities, the Animal Shelter, and the DeBenedetti Park catch basin.

Council Member Howard stated that while the City appears to be prepared to move forward with the public safety building project, many projects being discussed are only in the design stage, making it difficult to make a decision without specific cost information.

Mr. Burnett stated that under the tax code, the representation is that you expect to spend 85% of your proceeds within three years, which is what you would be required to find to finance these projects. He shared that the criteria for consideration would be that the City is comfortable with the status of the projects and their cost estimates, that there is reasonable expectation to spend the money, and that each project can be presented in detail, but not necessarily with a design in place. If these criteria can be met, he would encourage the City to consider moving forward to take advantage of the available fixed rates. He reminded Council that financial lenders are interested in looking at real projects, upon which their expectations would be delivered and their comfort level met.

Council Member Land expressed concern in funding so many projects, increasing the City's operation and maintenance costs for facilities, especially in light of our being in the midst of a recession, and asked when staff would provide Council with a solid proposal to include revenue sources.

Mr. Flynn stated Council would receive proposed operating expenses and revenues and proposed additional development recommendations in the next four to six weeks, sharing that the City has demonstrated it can take on this debt and complete the projects in three years. He further stated that with a business plan reflecting the City can absorb additional operating costs, there would still be a need to prioritize projects should estimated costs run higher on one project, thereby causing a delay in the completion of another.

Mayor Pro Tempore Pennino stated he was not in favor of the City financing 100 percent of the projects, as there are several groups lobbying for these facilities that could help raise construction funds. He commended John Johnson for the work he has done with the Lodi Sports Foundation and stated he believes there is a large portion of the community that can assist with raising dollars for funding recreation projects and the animal shelter. He noted that money should be raised before and during the projects, reminding Council that even with the now expired two-for-one payback opportunity made to the Hutchins Street Square Site Foundation, the City is still ultimately responsible for a great deal of debt, and the Foundation has appeared to have lost its enthusiasm.

Mr. Burnett stated that general fund balances remain reasonable and sufficient and it is recommended that, regardless of projects and the public safety building, the City should take advantage of current rates to refinance and reduce debt service costs. Should Council move forward in prioritizing projects, there is flexibility in how many projects can be funded until Council approves the documentation for financing, making it an easy process to increase/decrease figures. He stated he would return to Council in mid-November with a target of pricing and to receive feedback on what additional projects are being considered, and again in December to discuss financing of these projects. He explained that the structure would be similar to the COP structure (lease finance) at Hutchins Street Square, leasing essential City assets such as City Hall and other structures, suggesting an appraisal of City assets be put in action.

Council Member Hitchcock stated the City should move forward with the electric utility refinancing and the public safety building to take advantage of reduced rates, but shared that the City paying \$2.7 million a year in debt for the past two years is far different from doing it for 30 years, especially with our past history and current recession. She quoted a recent Kiplinger Letter, which stated that with an already fragile economy, and the September 11 event, recession will come. Ms. Hitchcock stated she supported set-aside funds to supplement existing debts, but does not see the new projects as revenue makers. Public support of these projects should not be discounted, nor the possibility of a general obligation of low interest rates to fund them, and reminded Council that through their patience the City was able to secure \$4 million in state funding for the public safety building. Ms. Hitchcock invited Council to join her in attending a conference on November 8-9, 2001 in southern California. Sponsored by the California Debt Investment Advisory Commission, the conference is directed toward City and elected officials and will cover debt structure, financial objectives, and issues of risk.

In response to Council Member Hitchcock's concern regarding revenue reports from the new aquatics center in Galt, Parks and Recreation Director Baltz stated that with an approximate annual debt of \$300,000, the City of Galt is recovering approximately \$200,000, and that their facility is actually closed approximately three months each year.

At the request of Council Member Hitchcock, City Manager Flynn reported that while a bond could be put on the November 2002 ballot when three Council seats are being decided, the voters might reject the bill, making Council unlikely to consider alternative financing for some time. Mr. Flynn stated that in reviewing the tax law and the current low interest rates, several important projects for the community can be brought before Council for consideration, and that staff is working hard to show this is possible. Further, Mr. Flynn thanked the members of the audience for attending the early meeting and invited them to return to future meetings to share in the discussion and show their support on these important projects.

Mayor Nakanishi stated he believes the City can afford to move forward with the anticipated public safety building project, but that as Council considers additional projects, priority should be given to the indoor sports complex, which has been on the City's future projects list since 1995.

Council Member Hitchcock expressed concern in financing projects with general fund dollars, asking if the City could use a rate structure similar to electric utility, tying the debt to development impact fees as a security. She further asked if the City's impact fee revenue stream had sufficient dollars for such financing.

Mr. Burnett responded that this particular strategy is unfamiliar to him, and he is unsure how credit-worthy investors would view it. At issue would be who takes the risk and whether to shift it to bondholders or to the City's general fund.

Finance Director McAthie stated that impact fees do not come in every year at a set rate, and should the finances not be available when the payments come due, it would be difficult to convince the bond lenders they would be paid in a consistent, timely manner.

**COMMENTS BY THE PUBLIC:**

- Randy Snider asked that Mr. Burnett clarify what the City's options would be should Council choose to request a specific dollar amount in financing, and then wished to drop a project and reduce the funding amount.

Mr. Burnett responded that the City would have flexibility in the description and project names to defer unused proceeds toward another project, or to defer debt service.

- Eunice Frederick pointed out that the Animal Shelter project falls under the auspices of the police department and public safety, and should therefore be included in the public safety building project rather than listed as "other". She asked that the Council give the overcrowded and dilapidated building the priority it needs and the attention the animals deserve. Mr. Flynn assured Ms. Frederick that the projects listed were done so randomly, not by priority, and that the animal shelter is a high priority project.

**D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS**

None.

**E. ADJOURNMENT**

No action was taken by the City Council. The meeting was adjourned at 8:22 a.m.

ATTEST:

Jacqueline L. Taylor  
Deputy City Clerk

# City of Lodi Financing Opportunities

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October 2, 2001

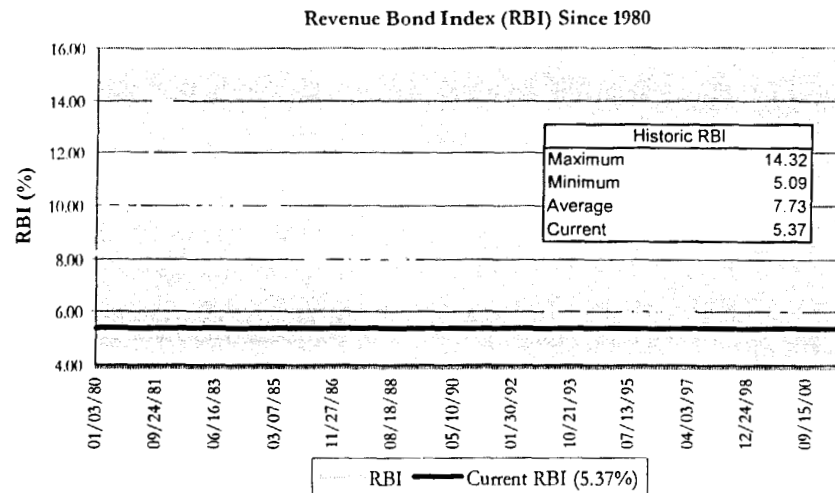
*presented by*  
**Public Financial Management**  
505 Montgomery Street, Suite 800  
San Francisco, CA 94111  
415 982-5544  
415 982-4513 fax



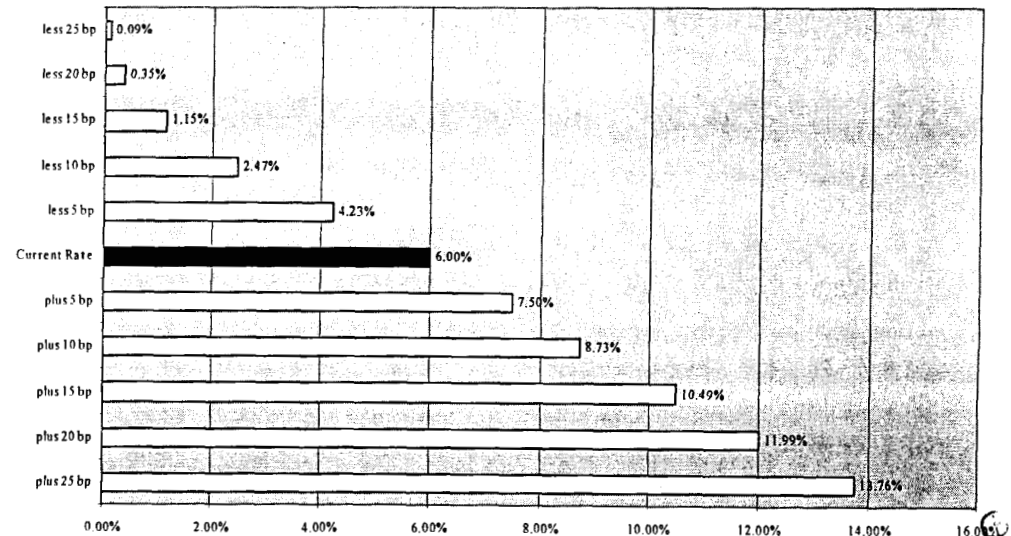
# Since we last met ...



- Interest Rates have changed significantly and created opportunities for the Electric Utility and the General Fund.



Percentage of Time RBI has been lower than Current Levels Since 1980



# Outline of Projects – Electric Utility



## ***Refunding of Outstanding 1999 Electric Revenue Bonds***

- Current market rates provide the opportunity to refund all of the outstanding bonds to generate reduced debt service cost for the Utility.
  - Par Amount: \$47,525,000
  - Average Outstanding Interest Rate: 5.73%
  - Borrowing Rate (30-year term): 4.58%
  - Net Present Value Savings: approx. \$4,510,000

## ***New Power Plant***

- State will make fixed cost payments related to the project for Lodi which will increase the underlying reliability and long-term resources of the Utility.
  - Project Cost: \$45,000,000
  - Annual Debt Service depending upon term (15 or 20 years): approx. \$3.8 - \$4.7 million

## ***Prepaid Power (Taxable)***

- Taxable financing to increase short-term reserves to enhance liquidity.
  - Par Amount: \$10,000,000
  - Borrowing Rate (5-year term): 4.98%
  - Annual Debt Service: approx. \$2,300,000



# Summary of Electric Utility Alternatives



Fiscal Year Ending	Outstanding Electric Utility Net Debt Service	Refunding of Outstanding Bonds	Prepaid Power (Taxable)	Total Lodi Electric Utility Debt Service <sup>(1)</sup>
6/30/2002	\$1,391,435	\$573,891	\$138,956	\$712,846
6/30/2003	1,391,435	1,986,545	2,296,000	4,282,545
6/30/2004	1,391,435	1,986,545	2,298,699	4,285,244
6/30/2005	1,391,435	1,986,545	2,297,068	4,283,613
6/30/2006	1,391,435	1,986,545	2,296,109	4,282,654
6/30/2007	1,391,435	1,986,545	2,300,580	4,287,125
6/30/2008	1,391,435	1,986,545		1,986,545
6/30/2009	1,391,435	1,986,545		1,986,545
6/30/2010	1,391,435	1,986,545		1,986,545
6/30/2011	4,941,435	3,341,545		3,341,545
6/30/2012	4,945,185	3,349,906		3,349,906
6/30/2013	4,941,360	3,345,550		3,345,550
6/30/2014	4,945,135	3,348,895		3,348,895
6/30/2015	4,941,810	3,344,523		3,344,523
6/30/2016	4,942,315	3,342,643		3,342,643
6/30/2017	4,942,533	3,343,046		3,343,046
6/30/2018	4,939,454	3,340,523		3,340,523
6/30/2019	4,941,313	3,345,074		3,345,074
6/30/2020	4,946,716	3,346,281		3,346,281
6/30/2021	4,946,081	3,349,144		3,349,144
6/30/2022	4,944,212	3,348,454		3,348,454
6/30/2023	4,947,457	3,349,211		3,349,211
6/30/2024	4,940,638	3,341,206		3,341,206
6/30/2025	4,943,338	3,344,648		3,344,648
6/30/2026	4,944,334	3,343,910		3,343,910
6/30/2027	4,943,382	3,343,992		3,343,992
6/30/2028	4,945,139	3,344,685		3,344,685
6/30/2029	4,944,400	3,345,780		3,345,780
6/30/2030	4,946,386	3,347,068		3,347,068
6/30/2031	4,944,514	3,348,340		3,348,340
6/30/2032	4,945,325	3,349,387		3,349,387
Total	\$121,285,376	\$90,070,062	\$11,627,410	\$101,697,472

(1) Excludes NCPA and TANC debt service





# Summary of General Fund Past Events



- **PFM has met with the City Council several times over the past two years to review the General Fund and the potential to finance a new Public Safety Building.**
- **Met with City Council on March 30, 2000 to evaluate the financing of the public safety complex.**

– Project Cost:	\$18,350,000
– Annual Debt Service:	approximately \$1,580,000
– Borrowing Rate:	6.13%

- **Met with City Council on June 27, 2001, to review budget results.**
- **The City has begun to make an annual set-aside for the Public Safety Building.**

FY 2000-2001	\$1,500,000
FY 2001-2002	\$1,500,000
FY 2002-2003	\$1,500,000
Total	\$4,500,000



## Outline of Projects – General Fund



The City has several potential projects it is considering; including the Public Safety Building and Parks and Recreation.

<u>Public Safety:</u>	<u>\$ million</u>
New Public Safety Building	12.00
Parking Structure	5.00
Old Public Safety Building Remodel	3.00
Subtotal Public Safety	\$20.00

<u>Parks and Recreation:</u>	
Indoor Sports Facility	7.50
Aquatics Center	3.50
DeBenedetti Park	7.30
Subtotal Parks and Recreation	\$18.30

<u>Other:</u>	
New Animal Shelter	3.00
Fire Station 2 Remodel	0.75
Subtotal Other	\$3.75

<u>Total:</u>	<u>\$42.05</u>
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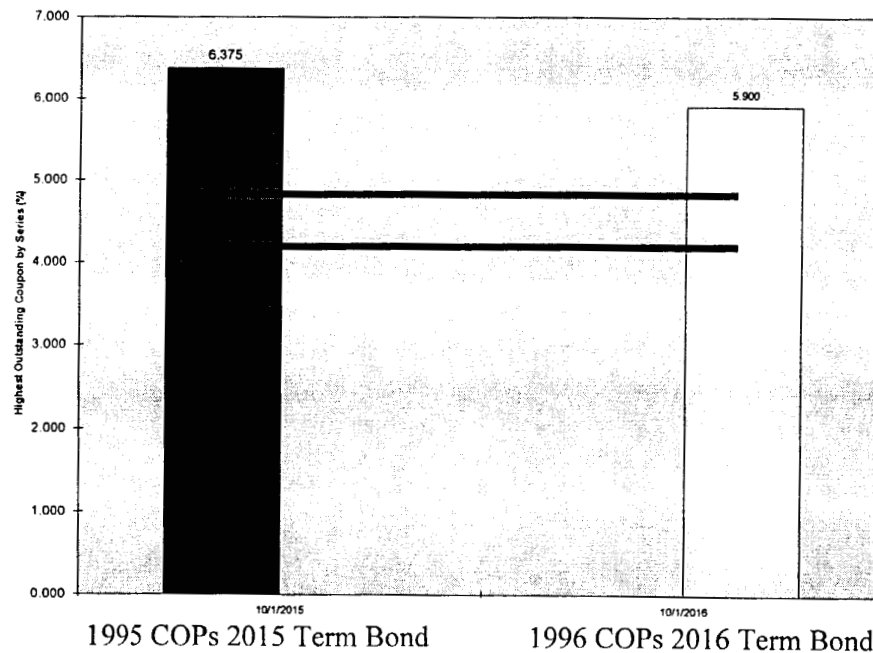
# General Fund Market Opportunities



## *Refunding of Outstanding 1995 and 1996 COPs*

- Current market rates also provide the opportunity to refund all of the outstanding COPs to generate reduced debt service costs for the General Fund.

– Par Amount:	\$14,900,000
– Borrowing Rate (16-year term):	4.08%
– Annual Debt Service Savings:	approx. \$50,000
– Net Present Value Savings:	approx. \$680,000



← Public Safety Building TIC (4.87%)  
← Refunding TIC (4.08%)

# Summary of General Fund Alternatives



Fiscal Year Ending	Outstanding General Fund Net Debt Service	Scenario A Refunding Only		Scenario B Level with PSB		Scenario C Level with PSB + \$16.3 M Add. Proceeds	
		Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Financing <sup>(2)</sup>	Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Financing <sup>(2)</sup>	Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Financing <sup>(2)</sup>
6/30/2002	\$1,275,208	\$244,522	(\$108,967)	\$286,620	(\$66,870)	\$234,846	(\$118,644)
6/30/2003	1,267,891	1,214,930	(52,961)	1,531,211	263,320	1,185,702	(82,190)
6/30/2004	1,268,679	1,216,379	(52,300)	1,533,186	264,507	1,912,235	643,556
6/30/2005	1,267,361	1,216,479	(50,883)	1,531,055	263,694	2,701,688	1,434,327
6/30/2006	1,268,691	1,214,489	(54,203)	1,532,958	264,266	2,703,365	1,434,674
6/30/2007	1,267,411	1,215,497	(51,914)	1,533,622	266,211	2,697,965	1,430,554
6/30/2008	1,268,239	1,214,344	(53,895)	1,532,993	264,754	2,700,318	1,432,079
6/30/2009	1,261,154	1,205,777	(55,377)	1,530,868	269,714	2,694,995	1,433,841
6/30/2010	1,265,914	1,214,428	(51,486)	1,532,096	266,182	2,701,699	1,435,785
6/30/2011	1,262,151	1,210,192	(51,959)	1,531,628	269,477	2,695,417	1,433,266
6/30/2012	1,254,479	1,203,610	(50,870)	1,529,678	275,199	2,686,717	1,432,238
6/30/2013	1,252,487	1,199,692	(52,795)	1,531,208	278,721	2,685,521	1,433,034
6/30/2014	1,256,394	1,202,804	(53,590)	1,530,912	274,518	2,691,071	1,434,678
6/30/2015	1,251,506	1,197,851	(53,655)	1,533,685	282,179	2,688,269	1,436,762
6/30/2016	1,247,824	1,194,996	(52,829)	1,529,627	281,803	2,682,389	1,434,565
6/30/2017	828,748	775,153	(53,595)	1,533,532	704,784	2,690,700	1,861,952
6/30/2018				1,530,191	1,530,191	2,698,821	2,698,821
6/30/2019				1,529,531	1,529,531	2,695,865	2,695,865
6/30/2020				1,531,490	1,531,490	2,698,761	2,698,761
6/30/2021				1,531,136	1,531,136	2,697,605	2,697,605
6/30/2022				1,533,309	1,533,309	2,697,205	2,697,205
6/30/2023				1,532,796	1,532,796	2,697,161	2,697,161
6/30/2024				1,529,701	1,529,701	2,697,409	2,697,409
6/30/2025				1,529,063	1,529,063	2,697,991	2,697,991
6/30/2026				1,530,672	1,530,672	2,698,720	2,698,720
6/30/2027				1,529,442	1,529,442	2,699,417	2,699,417
6/30/2028				1,530,299	1,530,299	2,695,047	2,695,047
6/30/2029				1,533,049	1,533,049	2,695,459	2,695,459
6/30/2030				1,532,502	1,532,502	2,695,160	2,695,160
6/30/2031				1,533,529	1,533,529	2,698,773	2,698,773
6/30/2032				1,529,058	1,529,058	2,695,301	2,695,301
Total	\$19,764,137	\$17,941,142	(\$901,277)	\$46,230,649	\$27,388,230	\$78,811,590	\$59,969,171

(1) Debt Service net of Capitalized Interest and Debt Service Reserve Fund Receipts

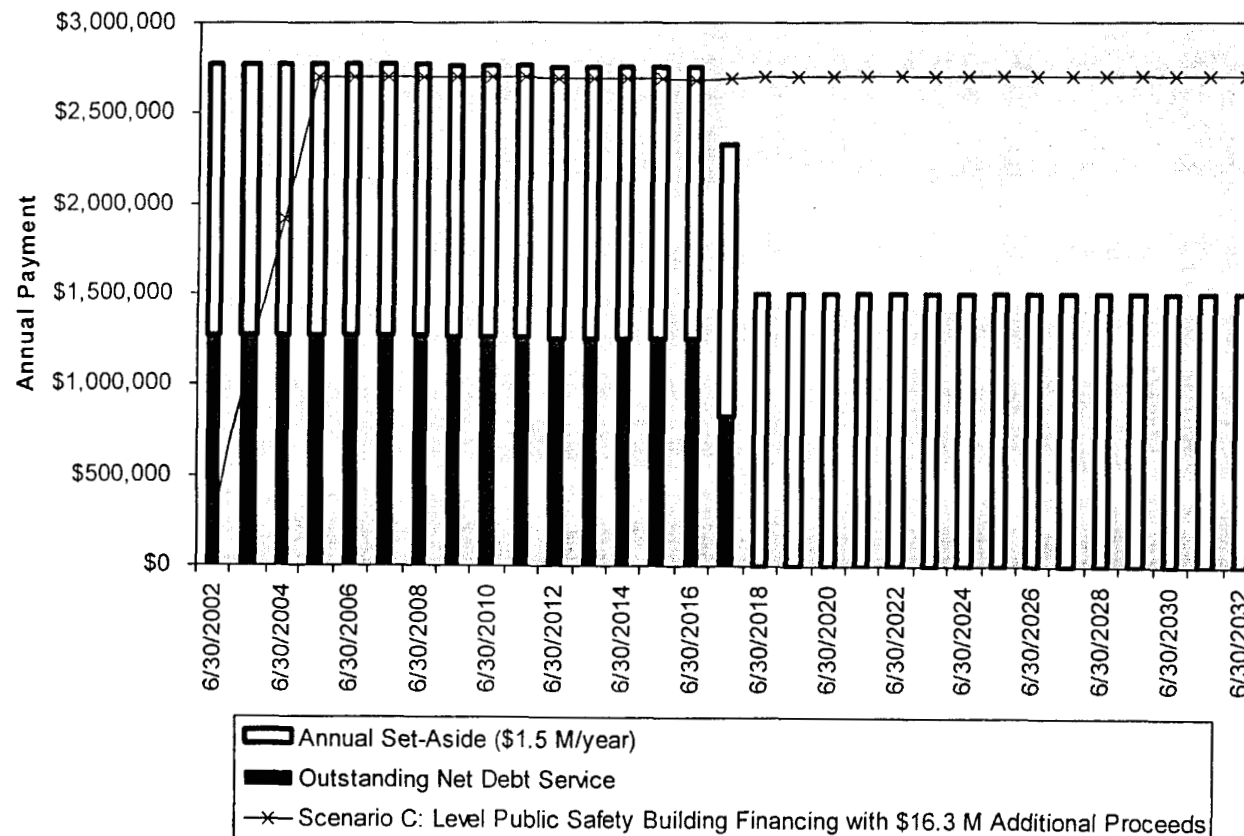
(2) Refunded Prior Debt Service in 2002 equals \$353,489



# Comparison of Existing Debt Service with Annual Set-Aside to General Fund Scenario



- Under current market conditions, Lodi could finance \$20 million of Public Safety Projects plus \$16.3 million of other projects with annual payments equal to the outstanding COP debt service plus the \$1.5 million annual set-aside, which has been budgeted from FY 2001 through FY 2003.



# Sensitivity to Interest Rates



Fiscal Year Ending	Level with PSB + \$16.3 M Additional Proceeds		
	Current Rates	+ 100 bp	
	Aggregate Net Debt Service <sup>(1)</sup>	Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Increase
6/30/2002	\$234,846	\$302,670	\$67,824
6/30/2003	1,185,702	1,263,682	77,980
6/30/2004	1,912,235	2,158,113	245,879
6/30/2005	2,701,688	3,050,883	349,195
6/30/2006	2,703,365	3,052,938	349,573
6/30/2007	2,697,965	3,047,658	349,693
6/30/2008	2,700,318	3,049,831	349,513
6/30/2009	2,694,995	3,044,011	349,016
6/30/2010	2,701,699	3,049,831	348,132
6/30/2011	2,695,417	3,042,219	346,802
6/30/2012	2,686,717	3,036,619	349,902
6/30/2013	2,685,521	3,032,874	347,353
6/30/2014	2,691,071	3,040,118	349,046
6/30/2015	2,688,269	3,033,207	344,939
6/30/2016	2,682,389	3,032,278	349,889
6/30/2017	2,690,700	3,004,520	313,821
6/30/2018	2,698,821	3,003,674	304,853
6/30/2019	2,695,865	3,004,563	308,698
6/30/2020	2,698,761	3,004,976	306,215
6/30/2021	2,697,605	3,004,928	307,323
6/30/2022	2,697,205	3,004,047	306,842
6/30/2023	2,697,161	3,001,866	304,705
6/30/2024	2,697,409	3,003,112	305,703
6/30/2025	2,697,991	3,002,623	304,632
6/30/2026	2,698,720	3,005,009	306,289
6/30/2027	2,699,417	3,004,890	305,472
6/30/2028	2,695,047	3,002,057	307,010
6/30/2029	2,695,459	3,006,016	310,557
6/30/2030	2,695,160	3,006,040	310,879
6/30/2031	2,698,773	3,001,822	303,049
6/30/2032	2,695,301	3,003,948	308,647
Total	\$78,811,590	\$88,301,022	\$9,489,432

## Assumption:

– Interest rates rise by 100 basis points

## Results:

– Increased Debt Service of approximately \$9.5 million

– Alternatively, \$2.7 million of annual debt service would generate \$5.2 million less in additional proceeds

(1) Debt Service net of Capitalized Interest and Debt Service Reserve Fund Receipts



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# Next Steps



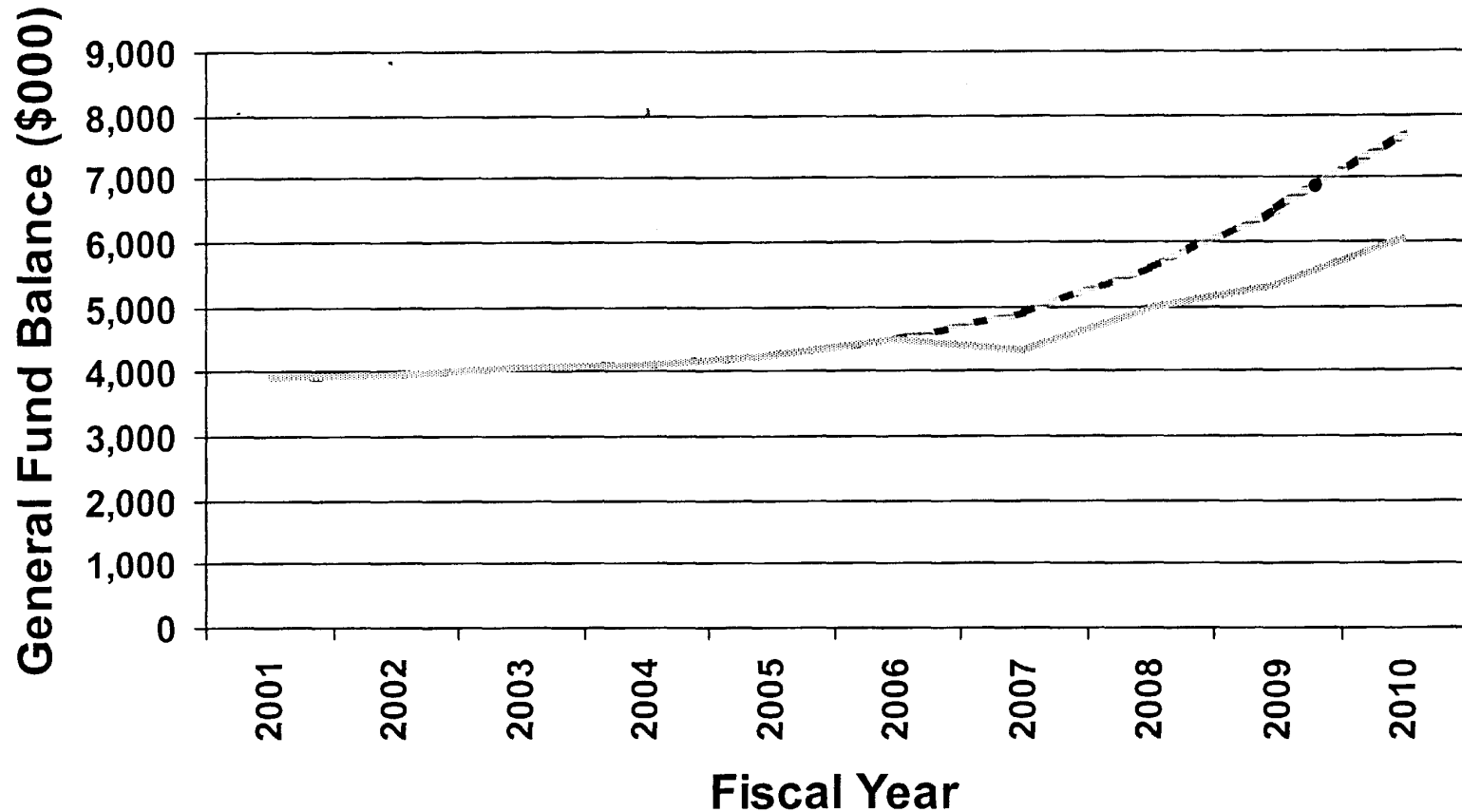
*In regard to next steps, the City should consider:*

- Taking advantage of current rates
- Prioritizing projects
- Beginning an appraisal on major City assets
- Timeline
  - Council Approval of Financing Plan      Week of November 12
  - Pricing      Week of November 26
  - Funding      Week of December 10

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# Preliminary Results: General Fund Balance with Debt Structures



- Base Case: Do Nothing
- - - Scenario B: Level PSB with Refunding
- ..... Scenario C: Level PSB with Refunding and \$16.3 M Add. Proceeds

Fiscal Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Base Case: Do Nothing	3,948,398	3,984,543	4,102,275	4,133,516	4,276,926	4,502,829	4,933,221	5,591,889	6,504,540	7,698,935
Scenario B: Level PSB with Refunding	3,948,398	3,984,543	4,102,275	4,133,516	4,276,926	4,502,829	4,933,221	5,591,889	6,504,540	7,698,935